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January 26, 1998

FEB. 1. SION

Ms. Magalie Roman Salas Secretary Federal Communications Commission 1919 M Street, N.W Washington, D.C. 20554

> Re: Comments of TDS Telecommunications Corporation--CC Docket No. 96-45 (Report to Congress)

Dear Ms. Salas:

Transmitted herewith, on behalf of TDS Telecommunications Corporation are an original and 9 copies of its comments in the above-referenced proceeding.

In the event of any questions concerning this matter, please communicate with this office.

Very truly yours,

· in Michaell and the Margot Smiley Humphrey

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Washington, D.C. 20554

In the Matter of)	CC Docket No. 96-45
)	(Report to Congress)
Federal-State Joint Board on)	DA 98-2
Universal Service)	

COMMENTS OF TDS TELECOMMUNICATIONS CORPORATION FOR THE UNIVERSAL SERVICE REPORT TO CONGRESS

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SUMMARY

The FCC's report to Congress on the implementation of the universal service provisions of §254 provides a rare opportunity for the new and incumbent members to adjust and correct the universal service mechanisms while it is still crafting them and with additional consideration of the text of the legislation and the intent of Congress. The FCC has made considerable progress in implementing the strong national commitment that rural households and businesses will not be left behind with respect to the network capabilities and information resources that telecommunications can provide. But there are still changes necessary to carry out the language and intent of the 1996 Act.

The FCC should treat telecommunications services that are involved in information exchange as "telecommunications services" under the new law. With forbearance authority in the law, there is no need to try to submerge the telecommunications access to important developments like the Internet as if they were contaminated and outside the FCC's power because they are associated with information provision. The FCC should treat Internet access as a telecommunications service so that it will not only be eligible for support under the schools, libraries and rural health care universal service programs, but also in the future when burgeoning use is likely to cause Internet to become part of the "evolving" definition under §254(c) of universal services for households and businesses throughout the nation. Since only providers of telecommunications servuces can be designated as eligible for high cost and low income support under \$254(e), it would grossly disserve the public interest and the intent of Congress for nationwide affordable services, "reasonably comparable" rates and services for rural and urban

areas and comparable rural access to "advanced telecommunications and information services."

The FCC should revise its interpretations of the Act's definitions and universal service principles to make sure it retains the authority and flexibility Congress intended to ensure that network and service innovations extend nationwide, and do not leave rural communities outside the mainstream of information and telecommunications progress. It is particularly important at this early stage in the new law's implementation to recognize that information and telecommunications are becoming increasingly more intertwined and interdependent. The \$254 mandate clearly expects the universal service policy to reach access to information, as well as access to new telecommunications concepts, including such innovations as Internet telephony, regardless of whether an offering is comprised of information and telecommunications service components.

The FCC has done a good job of implementing the non-discriminatory contributions command of §254(d). Wide application that includes all providers of interstate telecommunications is appropriate. However, both universal service mechanisms and the access charge regime, which still provides interstate support for nationwide network modernization and service proliferation, should not exempt crucial players. Accordingly, the FCC should backtrack and apply appropriate nondiscriminatory interstate charges to Internet access and other information service providers for their predominantly interstate telecommunications components. It should also rectify its error in allowing interexchange carriers to control whether traditional interexchange access arrangements are subject to federal or state access charges or fictionally treated as if they were local services simply by pretending they are ordered under §§251 and 252. The report is a good time to reassure Congress that contributions will be non-discriminatory and

not used to provide competitive advantages to some carriers.

The FCC has wisely left most of the designation of eligible carrier support recipients to the states, but should fix one unwarranted error. The language of §214(c) leaves no genuine doubt that Congress meant to limit support to carriers that made some actual investment in high cost facilities in an area. The notion that unbundled network elements qualify as a carrier's "own facilities distorts law and logic, since these elements can even consist solely of using the low cost facilities of another carrier — facilities that may not even be located in the high cost service area for which a carrier gains designation. The FCC should not misuse contributions from carriers nationwide supported by ratepayers nationwide to fund rural service that involves no genuine addition to the available infrastructure in the high cost area.

The FCC should also reassure Congress that it will abandon the 25% ceiling on support for federally-defined universal services. Section 254 creates separate spheres of federal definitions and support to be funded nationwide, and state-selected definitions that must be supported by intrastate contributions. The 25% allocation is not, as the FCC thought, the current measure of federal support because it excludes all high cost and low income support measures under the loop expense adjustment, DEM weighting and Long Term Support. The FCC should use its continuing separations powers to provide "sufficient" federal support and take into account "unseparated" end user revenues for the apportionment of the contribution responsibility.

Before the FFEDERAL COMMUNICATIONS COMMISSION Washington, D.C.

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COMMENTS OF TDS TELECOMMUNICATIONS CORPORATION

TDS Telecommunications Corporation (TDS Telecom or TDS), by its attorneys, submits these comments in response to the January 5, 1998 request of the Common Carrier Bureau for comments concerning its implementation of the universal service provisions added to the Communications Act by the Telecommunications Act of 1996. The Commission is required to report to Congress on this important subject by April 10, 1998.

TDS Telecom owns 106 primarily small and rural incumbent local exchange carriers (ILECs), located in 28 states. The TDS Telecom ILECs have been able to bring high quality service to the rural communities they serve largely because of the nation's universal service policy. Interstate high cost mechanisms and the support built into the interstate access charge cost recovery mechanism, together with the financing made available by the Rural Utilities Service programs, have been instrumental in the past to the TDS Telecom ILECs' ability to modernize rural communications networks where the marketplace alone would deny modern service.

The universal service requirements in §254 of the 1996 Act evidence Congress's strong commitment that rural households and businesses will not be left behind in the advancing

telecommunications and information era and the transition towards marketplace competition and deregulation in all areas of telecommunications, including local exchange service. The FCC was charged with speedy implementation of a federal-state joint board process and a blueprint for a revamped federal universal service support program. While it accomplished some strong universal service implementation measures and aggressively pursued several aspects of universal service — especially the landmark mandate from Congress for discounts that will foster access to telecommunications and information services for schools, libraries and rural health care providers, there are still some crucial loose ends to be tied before Congress can be satisfied that its universal service principles are "on track." TDS Telecom will focus on a few such improvements that seem pertinent to the list of questions Congress directed the FCC to answer in its universal service implementation.

Question 1: How do the definitions of "information service," "local exchange carrier," "telecommunications," "telecommunications service," "telecommunications carrier," and "telephone exchange service" in section 3 of the Act relate to universal service implementation and what will be the impact of the FCC's interpretation of those definitions on the provision of universal service to consumers in all areas of the Nation?

TDS Telecom believes that the definitions in the 1996 Act recognize the growing convergence between information and telecommunications services. The Act did not codify or even allude to the FCC's pre-1996-Act concept, fashioned as a way to avoid regulating information processing before the FCC had the forbearance authority conferred by §10 of the new law. The previous FCC-made definitions, in effect, disowned the telecommunications service functions involved in transmitting information as soon as a low threshold of computer involvement was crossed. End user messages, as opposed to information processing and information service were mutually exclusive. However, the law now recognizes that

"information" and "telecommunications" are inter-related. The definitions intersect, in that "telecommunications" means the "transmission ... of information of the user's choosing ..." and "information service" means various "capabilit[ies] ... for making available information via telecommunications" Moreover, the §254(c) universal service principles omit any stark deregulation or service definition demarcations. They call, for example, for "[a]ccess to advanced telecommunications and information services ... in all regions of the Nation," (§254(c)(2)) and for consumers in "rural, insular and high cost areas ... [to] have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services"

In fact, the FCC itself has previously treated Internet "access" as a "telephone exchange service," by labeling the service an "end user' service and noting that the offering is "covered by the exchange service charge" (§3(40)) — i.e. local business charges. ILECs (correctly) contend that Internet access service is properly classified as "exchange access" because it is an "offering of access to telephone exchange services or facilities" to originate or terminate long distance transmissions (§3(40). Significantly, neither of these positions would withdraw Internet access service from the purview of "telecommunications" or "telecommunications service."

The FCC's reiteration that Internet access providers do not provide "telecommunications service" and are therefore not "telecommunications carriers" is an unexplained departure from previous treatment and the statutory definitions, with troubling implications for universal service:

¹ Federal-State Joint Board on Universal Service, CC Docket No. 96-45, FCC 97-420, Fourth Order on Reconsideration, ¶¶190-191 (rel. Dec. 30. 1997).

The 1996 Act mandates (1) "sufficient" federal support to achieve that provision's universal service (§254(e)) purposes, (2) an "evolving" federal definition of universal service (§254(c), and (3) a limitation of federal support for universal services defined under the §254(e) federal high cost support mechanism to "telecommunications carriers" that have qualified for state designation under §214(e) as "eligible telecommunications carriers." Unfortunately, the definitions and interpretations applied to schools' Internet access could foreclose future support for students wanting to access the Internet at home to do their homework, even if such access became a "universal service" under §254(c). The FCC should not abdicate its authority to extend "universal service" support for Internet access to households and businesses in high cost rural areas by playing with the definitions in the Act to pretend that Internet access is not a "telecommunications service." Many believe that Internet access will soon become a widely available and necessary telecommunications service, especially with the growth of apparently "free" long distance telephony over the Internet. If the FCC does not properly recognize that Internet access and an increasing segment of Internet transmissions are legally and factually equivalent to existing local and long distance telephone services, it may unwittingly deprive itself of the authority to carry out the mandate of §254. It will then have rendered itself unable to carry out the intent of Congress to extend reasonably comparable services and rates, including access to interexchange, advanced telecommunications and information services to rural America.

In short, the FCC should take advantage of this report to Congress to assess its interpretations of the statutory definitions and ensure that it retains sufficient authority to implement §254, not only under the universal service definition appropriate for today, but also

under the evolving definition that will be shaped by the marketplace, technology and customer needs in the coming years.

Question 2: How has the FCC applied those definitions to mixed or hybrid services, what is the impact of such application on universal service, and how consistent has the Commission's application of those definitions been, including with respect to Internet access for educational providers, libraries, and rural health care providers under section 254(h) of the Act.?

TDS Telecom supports funding to hybrid or mixed services that include a "telecommunications" component. For example, TDS Telecom agrees with the FCC that schools, libraries and health care providers need discounts for the access to the Internet provided by local exchange carriers and information service providers. The Act plainly intends by \$254(c)(6), requiring "access to advanced telecommunications services as described in subsection (h)," to provide the FCC with ample authority to ensure information access provided via telecommunications for the nation's eligible schools, libraries and health care providers.

There is no hint that Congress did not mean to include access by means of an information service provider that offers both information processing and telecommunications access, such as resold LEC local exchange access or local exchange service. Section \$254(h)(2), like \$254(c)(3) relating to universal service to rural and high cost areas, provides broadly for "access to advanced telecommunications and information services." Congress could not conceivably have wanted to deny support simply because the telecommunications component was part of a mixed or hybrid package.

Information service providers often provide telecommunications in the course of providing their information services, generally by resale of local exchange access or long distance transmission services. Conversely, local exchange carriers provide the origination and

termination transmissions for information service to end users without changing the content of the information. The information provider in these arrangements is actually providing both resold telecommunications and information services. And, in rural areas, often the way residential and small business customers can best gain access to the Internet is if their local exchange provider becomes an Internet access provider. The FCC should avoid disadvantaging providers and customers using either of these arrangements, particularly in view of the Act's unqualified commitment to nationwide telecommunications and information availability. For example, the FCC cannot implement the law in a way that is technologically or competitively neutral if it treats ILEC and IXC voice telephony as "telecommunications services," but views Internet telephony as an information or contaminated mixed service that is solely an information service under its pre-Act definitions. That the Internet access provider's customer's transmission is converted into digital form and packet switched for the parts of the transmission beyond the ILEC's provision of the local analog loop does not create a distinction with any legal or logical relevance under the definitions and purposes of the new law. The answer to the previous question explains why the FCC should not treat Internet access as a non-telecommunications service and Internet access providers as non-telecommunications carriers.²

The FCC should, accordingly, interpret the statutory definitions in a way that is consistent

² TDS Telecom realizes that different legal, policy and definitional issues apply to the provision of inside wiring for Internet hookups by entities that are not telecommunications providers, information service providers or any combination thereof. TDS does not discuss the treatment of such entities here, since our concern is to prevent non-carrier treatment of Internet access — plainly a transmission function — from withdrawing that crucial function from the advanced telecommunications and information services that we expect to qualify in the not-too-distant future as federally-defined universal services for which only telecommunications providers may lawfully obtain support.

with the marketplace reality of closely inter-related information provision and telecommunications transmission services, involving hybrid and mixed providers. It should also treat hybrid services that include a telecommunications component as the services of a "telecommunications provider" for the purpose of qualifying for high cost support in the event that the federal universal service definition under §254(c) "evolves" in the future to include Internet access.

Question 3: Who is required to contribute to universal service under section 254(d) of the Act and related existing Federal universal service support mechanisms, and what is the impact of any exemption of providers or exclusion of any service that includes telecommunications from such requirement or support mechanisms?

TDS Telecom agrees with the FCC that the 1996 Act requires contributions to the explicit federal universal service support mechanisms developed pursuant to §254 by all providers of interstate telecommunications services. Thus, the FCC correctly determined that the public interest requires it to exercise its discretionary authority to require contributions by other interstate providers, as well as common carriers.

However, the obligation to contribute to federal universal service mechanisms does not stop there. The FCC has not yet finished converting from the implicit support regime that recovers significant interstate support for the higher costs of providing universal service in rural areas through the access charges under Part 69 of the FCC Rules. Thus, access charges remain at this time an "existing universal service support mechanism[]" within the scope of this question, a source of contributions "related to," but not part of the contributions to universal service "under §254(d)." Consequently, the FCC's report to Congress about who contributes to federal universal service support and who enjoys an exemption conferred by the FCC cannot overlook the FCC's

controversial access charge exemptions.

The FCC has mistakenly exempted access or other appropriate interstate charges at least two providers and services that "include telecommunications." but are absolved from contributing to this or a suitable interstate substitute for this remaining federal source of universal service support: (1) Interexchange carriers that order the local distribution and collection of their interexchange traffic in the guise of section 251(c) unbundled elements for the interconnection of competing local exchange services and the local distribution — i.e. access — segment of the predominantly interstate and foreign transmission of information via the Internet and (2) Internet, access providers.

The Eighth Circuit meticulously distinguished in Comptel³ between interconnection arrangements made available under §\$251-252 for carriers seeking to provide local service competition and interexchange carriers using local access, not for competitive provision of exchange or exchange access, but rather as a substitute for access for their own interexchange services. The new Commissioners should take this opportunity to restore the distinction between interexchange access subject to §201 and local competitors' access under the new provisions that Congress did not intend to affect (§251(g)). That wise course would maintain existing support for rural local exchange providers and their customers while the FCC reviews and reforms its interstate access rules for rate-of-return-regulated (i.e. non-price-cap) ILECs.

The FCC's decision to exempt Internet access from appropriate interstate charges has the same result, depriving ILECs' customers of interstate support before effective substitute support

³ Competitive Telecommunications Ass'n v. FCC, 117 F. 3rd 1068, 1073, 8th Cir. 1997)

has been implemented. Indeed, the exemption of Internet access creates a new, unlawful, implicit subsidy from local exchange customers to Internet providers and services: Since the FCC has acquiesced in the application of local business charges to Internet access providers, ⁴ NECA has (understandably) compounded the error by assuming that the costs of this predominantly interstate/foreign access are intrastate costs because the apparent, though unlawful, source of cost recovery.

The FCC should decide and advise Congress in this report that it will use its pending reconsideration and separations proceedings and the upcoming rate of return ILEC access charge reform proceeding to ensure that the support remaining in access charges is funded, as Congress intended, by means of non-discriminatory contributions from <u>all</u> interstate telecommunications providers.

Question 4: Who is eligible under sections 254(e), 254(h)(1), and 254(h)(2) of the Act to receive specific Federal universal service support for the provision of universal service, and the consistency with which the Commission has interpreted each of those provisions of section 254?

The 1996 legislation expressly restricted eligibility for the "specific Federal support for universal service" described in §254(e) to carriers that a state designates as eligible telecommunications carriers under the standards laid out in §214(e). A state may designate only a common carrier that provides all the services defined as universal services by §254 (c) throughout the service area for which it is designated. It must provide these services using its own facilities. at most partially supplemented by resale of other carriers' services. The FCC has interpreted the facilities requirement loosely, ignoring the plain language of the provision in favor of its quirky

⁴ Access Charge Reform, First Report and Order, CC Docket Nos. 96-262 <u>et al.</u>, FCC 97-158, ¶345 (released May 16,1997) .

notion that unbundled network elements can meet the "own facilities" requirement — even if they are totally provided by an underlying carrier's facilities that are not "high cost" facilities or even if the underlying carrier's facilities are not located in the high cost area for which the designated carrier will obtain "high cost" support as a designated carrier. The FCC should correct this extrastatutory and unnecessary squandering of support ultimately paid for by the nation's end user customers. It conflicts with the mandate in §254(e) that all support must be used for the purpose intended, since a competing carrier could receive support based on the high costs of the designation area while paying only the cost of unbundled elements provided on a low cost network located elsewhere. It could then use the windfall support for its competitive services, contrary to §254(k).

TDS Telecom supports the FCC's interpretation and implementation of §254(h)(1)(A) and (B): (a) to provide support for discounts to schools, libraries and rural health care providers, (b) to allocate contributions by interstate telecommunications providers to fund the amount necessary for this portion of the federal universal service program on the basis of their total, unseparated interstate and intrastate—end user revenues and (c) to make support available to carriers that provide discounted services without requiring designation under §214(e) as eligible telecommunications carriers.

As discussed above, TDS Telecom does not agree that provision of transmission for local pickup and delivery of Internet and other information services is properly classified as a "non-telecommunications service" within the Act's definitions. We see no need to deny that there are telecommunications service components included in Internet access or to place support for Internet access discounts under §254(h)(2), regardless of how the FCC chooses to justify support

under that subsection to actual non-telecommunications services obtained from non-telecommunications carriers. The funding of discounts for Internet access as a "universal service" beyond those defined for high cost and low income support purposes is plainly within the FCC's statutory authority under §254(c)(3) and (h)(2), which allows for different universal service definitions for eligible institutions.. Even more important, using that authority would avoid exposing at least the telecommunications transmission components of Internet and other information access to the controversy surrounding the non-telecommunications discounts. As expained above, a less tortured reading of the statutory language with respect to the different characteristics of Internet access would also avoid compromising support for Internet access provided by telecommunications carriers qualified under §254(e) at a later date, when Internet service has become a necessity for home and small business use as well as for subsection (h) institutions.

Question 5: What effect will the Commission's decisions regarding the percentage of universal service support provided by Federal mechanisms and the revenue base from which such support is derived have on the achievement of the Act's universal service purposes?

The FCC suddenly declared in the Universal Service Order,⁵ without notice or comment and without obtaining a federal state joint board recommendation on the subject, that it would restrict the contribution to federally-defined universal service support to 25% of the amount needed to provide "sufficient" support under the proxy and benchmark formula adopted in that proceeding. Its rationale rested on the theory that a 25% federal share of universal service would simply maintain the 25% allocation of loop costs to the interstate jurisdiction under the existing

⁵ Federal-State Joint Board on Universal Service, CC Docket No. 96-45, FCC 97-157, ¶833-34, 12 FCC Rcd 8776 (rel. May 8, 1997) (Universal Service Order).

rural and insular locations. Unfortunately, its reliance on the 25% gross allocation factor as the measure of the existing federal cost recovery level was factually incorrect. The 25% gross allocator represented only the base costs allocated to the interstate jurisdiction for all ILECs, before the calculation of high cost support under any of the specific universal service programs then in effect. Thus, the 25% allocator excludes the expense adjustment that was funded out of the Universal Service Fund, Long Term Support and DEM Weighting support, all of which helped high cost rural ILECs. Hence, the 25% federal share also ignores the greater allocation provided to recoup the higher costs of rural switches that serve few access lines and low traffic volumes. As the traditional support mechanisms used interstate cost recovery allocations as a central means of supporting nationwide provision of affordable, modern telecommunications service, the omission of these allocations from the federal support obligation must necessarily result in slashing the high cost support provided by nationwide ratepayers when the Act was passed.

The FCC's decision was the fruit of a disagreement among the Joint Board members about whether the support necessary to provide the federally-defined universal services throughout the nation at affordable prices could be allocated among the interstate providers required to contribute by \$254(e) on the basis of total unseparated revenues (the same basis to be used to calculate the high costs requiring support) or had to be apportioned among carriers on the basis of interstate

⁶ The decision to "carry forward" a supposed 25% ceiling ignored the record evidence that switching costs were higher for service that had to be provided to areas with fewer customers and lower traffic volumes.

revenues alone.⁷ The FCC ignored the discretion that had been used and judicially upheld for past use of jurisdictional separations allocations to achieve public policy goals.⁸ It also ignored the broad jurisdictional classification powers with regard to ILEC "property, expenses and revenues," conferred on the universal service joint board as a section 410(c) joint board (i.e. a jurisdictional separations joint board), supplemented with a consumer representative. Instead, the FCC acted without joint board guidance to adopt a new separations factor—the 25% ceiling on interstate cost recovery and interstate providers' contributions. Its unilateral alteration of the jurisdictional apportionment of interstate universal service responsibility thus violated its statutory duty under \$410(c), as well as its obligation to provide "sufficient" support under federal mechanisms to carry out the Act's nationwide universal service objectives.

The 25% ceiling also violates the plain language, structure and intent of §254. The statute expressly delineates federal and state responsibility and authority for universal service: The federal state joint board process adopts the universal service definition required by subsections (a) through (c); subsection (d) governs the duty of interstate providers to contribute "to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and enhance universal service"; and subsection (e) then mandates "specific Federal universal service

⁷ On a related question, the FCC correctly decided that it should apportion contributions on the basis of end user revenues.

⁸ The FCC and reviewing courts had long recognized that public policy is a valid basis for drawing jurisdictional boundaries: The process is inherently arbitrary because there is no economic answer to what costs are subject to either state or federal authority. <u>Rural Telephone Coalition v FCC</u>, 838 F. 2d 1307 (D.C. Cir. 1988).

support" that is "sufficient to achieve the purposes of this section." Congress devotes an entirely separate subsection (f) to the state role and authority, providing for state discretion to adopt a broader definition of universal service for state support purposes, so long as the state funds the supplemental definition with "sufficient" state support, charged to providers of "intrastate telecommunications services." It is irrational to suggest that Congress adopted a federal mechanism and definition, committed implementation to a jurisdictional separations (§410(c)) joint board, augmented by additional public representation, and expressly prescribed the limits of state funding authority and obligations, but actually intended each state to raise three quarters of the nationwide funding obligation for the federal universal service program within that state, as well as 100% of any program the state exercised its authority under subsection (f) to adopt. Imposing the preponderance of the cost recovery responsibility and enforcement for achieving national policy on the states suffers from the same infirmity that led the Supreme Court to hold the Brady Bill overly intrusive upon the states. Indeed, the FCC's interpretation transforms Congress's national policy and structure for spreading the costs of a nationwide public network to all end users of the nationwide system into a plan to shift extensive universal service responsibility to the states. The impact on higher cost states will be just what Congress set out to avoid — adverse effects for those customer groups and localities for which the competitive marketplace alone does not assure affordable rates, equivalent service opportunities and modern technology.

The FCC should take advantage of the call to evaluate its implementation to (a) remove

⁹ Printz v. United States, U.S. (1997 U.S. LEXIS 4044, 1997).

the unlawful 25% federal contribution ceiling, and (b) explore all alternatives, including how its

flexibility to use the separation of "property, expenses and revenues" required by Smith v. Illinois

Bell etc. to allocate nationwide cost recovery to support the federal universal service program

equitably over all customers and carriers.

Conclusion

For the above reasons, TDS Telecom urges the FCC to reevaluate and undertake to modify

its universal service implementation in repairing its report to Congress. It can then effectuate

these modifications in its ongoing implementation and reform proceedings in order to comply

more completely with the language of the 1996 Act and the national commitment to universal

service enacted there.

Respectfully submitted,

TDS TELECOMMUNICATIONS CORPORATION

By /s/ Margot Smiley Humphrey

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January 26, 1997

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CERTIFICATE OF SERVICE

I, Sheila V. Hickman, a secretary in the offices of Koteen & Naftalin, hereby certify that true copies of the foregoing Comments of TDS Telecommunications Corporation, Inc. have been served on the parties of the attached service list, via first class mail, postage prepaid on the 26th day of January, 1998.

By: Sheila V. Hickman

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